



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 1/4/2008

GAIN Report Number: BR8006

Brazil

Market Development Reports

Export potential for U.S. wines

2008

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Report Highlights:

Brazilian wine imports have grown by an average of twenty-five percent per year over the past five years. Nonetheless, the competitive position of U.S. wines in Brazil must be considered difficult. South American and EU wine suppliers have well-established positions and customs preferences, making it difficult for other countries to compete. However, consumers are open to emerging trends, leading to significant growth of wines from new world wine production areas (excluding South America). This openness should provide opportunities for distinctive U.S. wines.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Sao Paulo ATO [BR3]
[BR]

I. Production

In 2004 the International Organization of Vine and Wine (OIV) published its estimates for the world vitiviniculture sector, in which Brazil ranked 16th in the global wine market. According to that study, the country accounted for approximately 1 percent of the world total 298.2 million of hectoliters produced. Despite the lack of updated statistics, the current situation should hold true to this picture. World wine production has been relatively stable and Brazil has not recorded significant changes in production volume - the variation in Brazil's wine production from 2004 to 2007 was less than 1 percent.

Grape production areas in Brazil are found in the 7 states of Rio Grande do Sul, Sao Paulo, Pernambuco, Parana, Bahia, Santa Catarina and Minas Gerais. According to the Brazilian Institute of Statistics and Geography (IBGE), in 2007 the planted area in these states reached a total area of 89,946 hectares, which represents 3 percent increase compared to the previous year. Total production reached 1,354,960t, rising 11 percent between 2006 and 2007. A slightly increase in yields was also observed, from 16,5kg/ha in 2006 to 17kg/ha in 2007.

GRAPE AND WINE PRODUCTION AREAS IN BRAZIL



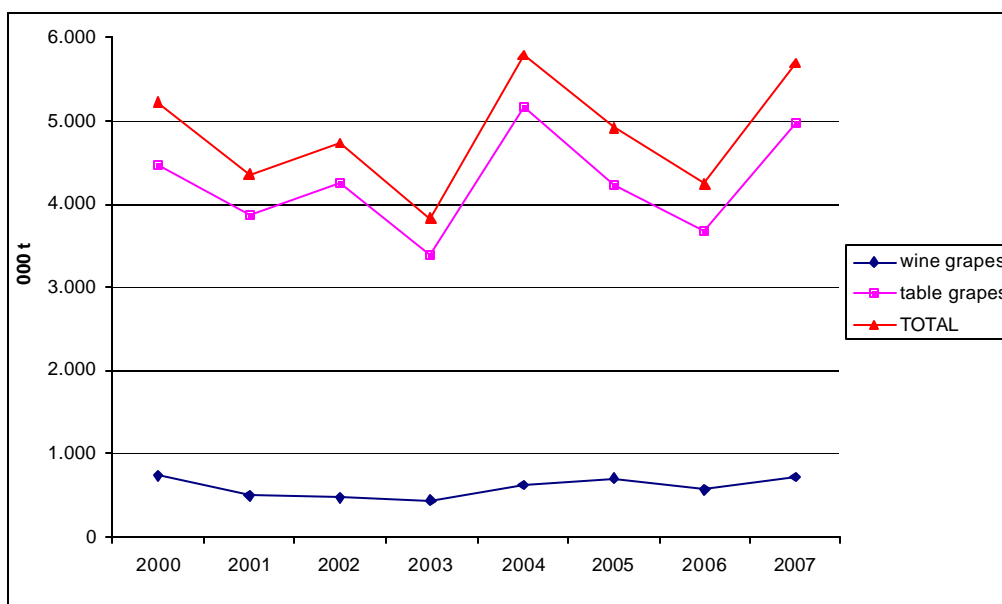
NOTE: Grey area corresponds to states with grape production and black refers to wine production.

While IBGE data above corresponds to the total production of fresh grapes in the country, the Brazilian Union for Wine Production (UVIBRA) produces estimates of wine production based on the volume of grapes harvested in Rio Grande do Sul and delivered to the processing industry. These deliveries, according to the UVIBRA, represent approximately 90 percent of total Brazilian output. Despite the state of Rio Grande do Sul's position as the leading wine producer, the Northeastern state of Pernambuco has emerged as a new production area for high quality wines. Viticulture was only established in the Northeast during the 1980's.

¹ Top 15 producers of wine: France (19%), Italy (18%), Spain (14%), US (7%), Argentina (5%), Australia (5%), China (4%), Germany (3%), South Africa (3%), Portugal (2%), Chile (2%), Romania (2%), Russia (2%), Hungary (1%), Greece (1%), and Brazil (1%).

In 2007, the total volume of grapes commercialized for industrial purposes in Rio Grande do Sul amounted 570,536t, an increase of 33 percent compared to 2006. Of this volume, wine varietals typically account for less than twenty percent. The production of both table grapes and wine varietals has oscillated sharply in recent years (see table below). From 2000 to 2003, there was a sharp drop, followed by two-year recovery in 2004 and 2005, and another decline in 2006. While from 2006 to 2007 the volume of wine grapes processed by the industry increased 27.5 percent, their share of total processed volume dropped slightly from 13.4 percent to 12.7 percent. These oscillations in the production of wine varietals are mainly due to the wide climatic variations encountered in grape producing areas of Brazil. Instances of late frost, hail or problems with emergence, flowering or excessive rain or cold all affect crops.

GRAPE PRODUCTION (t)



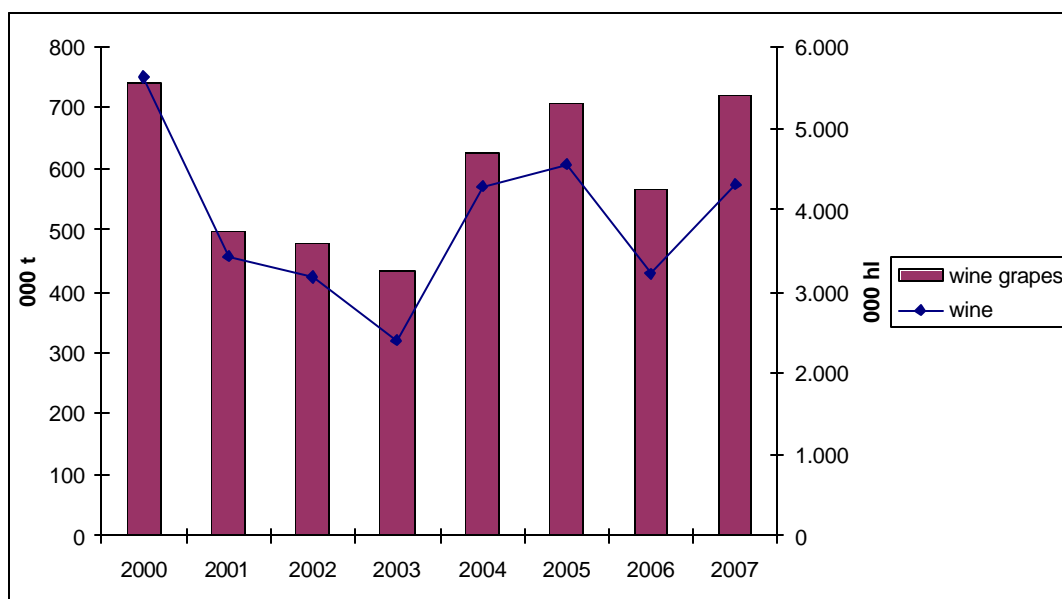
	2000	2001	2002	2003	2004	2005	2006	2007
wine grapes	74,259	49,806	47,766	43,368	62,594	70,609	56,596	72,152
table grapes	447,498	386,292	426,633	339,744	516,396	422,638	367,039	498,384
TOTAL	521,757	436,098	474,399	383,112	578,990	493,247	423,635	570,536

Source: UVIBRA

Note: data refers to Rio Grande do Sul state

Wine production during 2000-2007 has followed grape production patterns, with a sharp decrease of 57.3 percent during the period 2000-2003 and a 29.2 percent drop in 2006, against 41.6 and 19.8 percent declines in grape production for the same periods. In 2004 and 2007, strong growth occurred, and wine production increased 78.8 percent and 34.1 percent, respectively.

WINE GRAPE PRODUCTION (t) x WINE PRODUCTION (000 hl)



	2000	2001	2002	2003	2004	2005	2006	2007
wine grapes	74,259	49,806	47,766	43,368	62,594	70,609	56,596	72,152
wine	5,621	3,416	3,165	2,399	4,290	4,550	3,219	4,318

Source: UVIBRA

Note: data refers to Rio Grande do Sul state

The most common varieties used for wine are the reds Cabernet Sauvignon and Merlot, and the white Moscato, used for Brazilian sparkling wines. In 2006, these 3 categories represented 55 percent of total production of wine varieties. Although the 2007 estimates have not yet been released by the Brazilian Agricultural Research Center (EMBRAPA), no substantial changes are expected from the rankings below.

Red (t)	2000	2001	2002	2003	2004	2005	2006	%
Cabernet Sauvignon	4,591	3,833	4,752	6,043	10,980	12,821	12,063	35
Merlot	6,223	4,962	5,836	6,826	9,887	10,632	8,449	25
Cabernet Franc	4,419	2,989	2,856	3,022	3,855	3,869	3,285	10
Tannat	3,487	2,051	1,893	2,285	3,263	4,561	3,055	9
Pinot Noir	621	479	496	443	1,054	1,704	1,161	3
Alicante Bouschet	160	161	216	320	626	1,076	1,078	3
Pinotage	1,851	1,432	1,111	-	1,471	1,994	996	3
Egiodola	325	373.3	512	625	859	1,070	899	3
Ancelota	26	47.0	64	218	604	861	872	3
Ruby Cabernet	42	76.5	178	264	595	546	654	2
Others	2,230	1,823	1,145	2,235	1,974	2,345	1,730	5
TOTAL	23,975	17,853	19,059	22,281	35,168	41,479	34,242	100

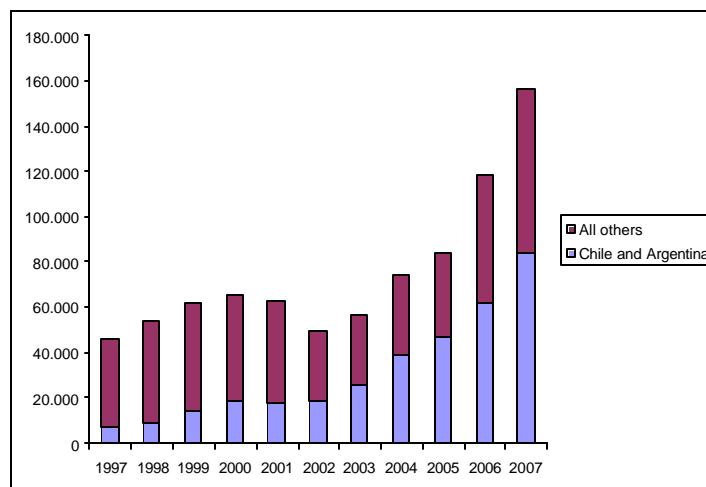
White/Rose (t)	2000	2001	2002	2003	2004	2005	2006	%
Moscato	19,535	12,038	13,809	9,788	13,066	10,145	10,748	48
Riesling Italico	8,855	5,573	3,821	3,135	2,964	3,496	1,901	9
Chardonnay	2,873	2,197	1,604	1,568	1,745	4,441	1,830	8
Trebbiano	5,413	3,158	2,430	1,454	2,043	1,974	1,376	6
Prosecco	455	365	360	341	395	789	917	4
Moscato Giallo	17	115	357	349	691	703	776	3
Sauvignon Blanc	1,157	805	545	441	690	738	606	3
Semillon	4,310	2,778	2,037	1,129	1,284	1,375	600	3
Moscato Nazareno	-	287	401	503	948	921	544	2
Colombard	343	276	209	153	451	654	518	2
Others	6,655	4,016	3,050	2,157	3,063	3,862	2,531	11
TOTAL	49,613	31,608	28,623	21,018	27,340	29,098	22,347	100

Source: Brazilian Agricultural Research Center (EMBRAPA)

II. Consumption

Patterns of wine consumption in Brazil have changed significantly since the mid 1990's thanks to the opening of the Brazilian market to foreign goods. Brazilian consumers have been exposed to imported products, which quickly gained favored status since local wine production was underdeveloped. The average wine consumer began to purchase inexpensive imported wines at the expense of beer, while affluent consumers searched for well-known labels. Initially, these experiments were helped by appreciation of the local currency, which brought the Real equivalent to the U.S. Dollar. However, by the end of the 1990's the exchange rate was no longer fixed and the Real suffered a significant depreciation. The impact on imports was immediately felt. By 2002, the value of the Real had fallen to about R\$4 to the U.S. Dollar. In 2003, the Real began to regain value, stabilizing at US\$1 to R\$1.70-1.80 by the end of 2007. In spite of those unfavorable exchange rates in the early 2000's, wine consumption has increased and wine classes and wine tastings became trendy. This phenomenon helped consumers become more knowledgeable and has fueled a substantial increase in consumption of South American wines, from Chile and Argentina.

WINE EXPORTS TO BRAZIL (Millions US\$)

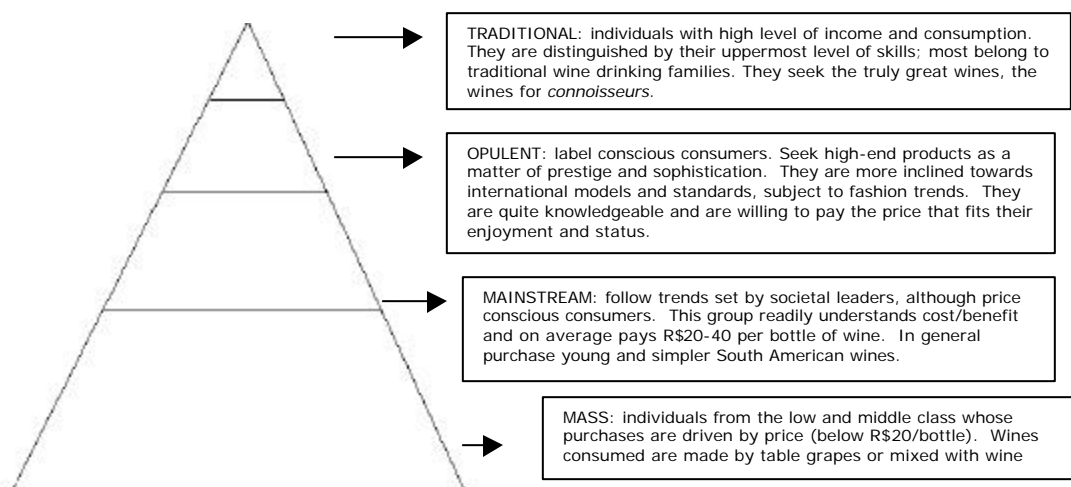


Source: Brazilian Secretariat of Foreign Trade (SECEX)

In 2001, the Brazilian Wine Institute (IBRAVIN) conducted research in the cities of Porto Alegre, Curitiba, Salvador, Rio de Janeiro, Belo Horizonte, Brasilia, Ribeirao Preto and Sao Paulo, to evaluate consumers' behavior towards wine. Results indicate three distinct categories of Brazilian wine consumers: light users (average consumption of ½ bottle per month); medium users (average consumption of 1-3 bottles per month); and heavy users (consumption of more than 3 bottles per month), representing 36 percent, 54 percent and 10 percent of buyers, respectively.

On average, the "medium users" group is evenly divided among men and women. They are around 40 years old, belong to the middle class (with annual income of R\$15,000-R\$65,000) and 51 percent have university degrees. Levels of income or education do not seem to determine whether wine drinkers engage in light, medium or heavy consumption. Gender and age, however, are determinate. Women tend to be light users while men predominate among heavy users. Consumption also increases as individuals get older. The typical light consumer is 36 years old while the average heavy user is 42 years old.

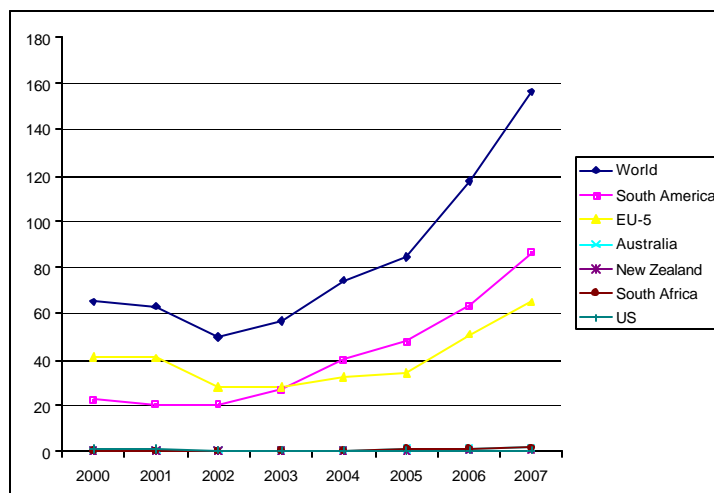
Furthermore, light consumers drink wine mainly on holidays or during the winter whereas medium and heavy users demonstrate consistent consumption throughout the year. Purchases of wine take place mainly at supermarkets (65 percent) for all groups, although heavy users are more inclined to visit specialized wine stores. Four attitude groups were identified as a baseline to understand the behavioral attitude towards wine in the Brazilian market. The "mainstream" and "opulent" consumers represent the variables with which US exporters will be most likely direct their marketing efforts.



III. Trade data

There are twelve major wine suppliers to Brazil: From South America (Argentina, Chile and Uruguay), the EU (France, Germany, Portugal, Italy and Spain), the U.S., South Africa, New Zealand and Australia. According to the Brazilian Trade Secretariat (SECEX), imports of wines under HS 2204 totaled US\$175 millions in 2007, a 25 percent increase compared to 2006. Indeed, on average, imports increased by 24 percent per year from 2002 to 2007. Throughout this period non-sparkling wines in containers of less than 2 liters (NS<2l) kept its share of approximately 85 percent of import total volume.

WINE EXPORTS TO BRAZIL (Millions US\$)



Source: Brazilian Secretariat of Foreign Trade (SECEX)

WINE EXPORTS TO BRAZIL (Millions US\$)

	2000	USD	SHARE	2001	USD	SHARE	2002	USD	SHARE
	World	77,074		All Wines	72,973		All Wines	59,828	
	NS<2L	65,192	84,58	NS<2L	63,164	86,56	NS<2L	50,057	83,67
1	Italy	16,336	25,06	Italy	15,573	24,66	Chile	11,627	23,23
2	Portugal	13,142	20,16	Portugal	13,741	21,76	Italy	11,347	22,67
3	Chile	12,097	18,56	Chile	11,123	17,61	Portugal	8,543	17,07
4	France	8,437	12,94	France	7,954	12,59	Argentina	6,894	13,77
5	Argentina	6,557	10,06	Argentina	6,196	9,81	France	6,049	12,08
6	Uruguay	3,616	5,55	Uruguay	3,123	4,94	Uruguay	2,083	4,16
7	Germany	1,669	2,56	Spain	2,282	3,61	Spain	1,503	3,00
8	Spain	1,668	2,56	Germany	1,170	1,85	Germany	0,830	1,66
9	US	0,900	1,38	US	1,036	1,64	Australia	0,447	0,89
10	Australia	0,447	0,69	Australia	0,637	1,01	US	0,358	0,72
11	N. Zealand	0,110	0,17	N. Zealand	0,112	0,18	N. Zealand	0,134	0,27
12	S. Africa	0,076	0,12	S. Africa	0,099	0,16	S. Africa	0,106	0,21
	TOTAL	65,055	99,81	TOTAL	63,046	99,82	TOTAL	49,921	99,73

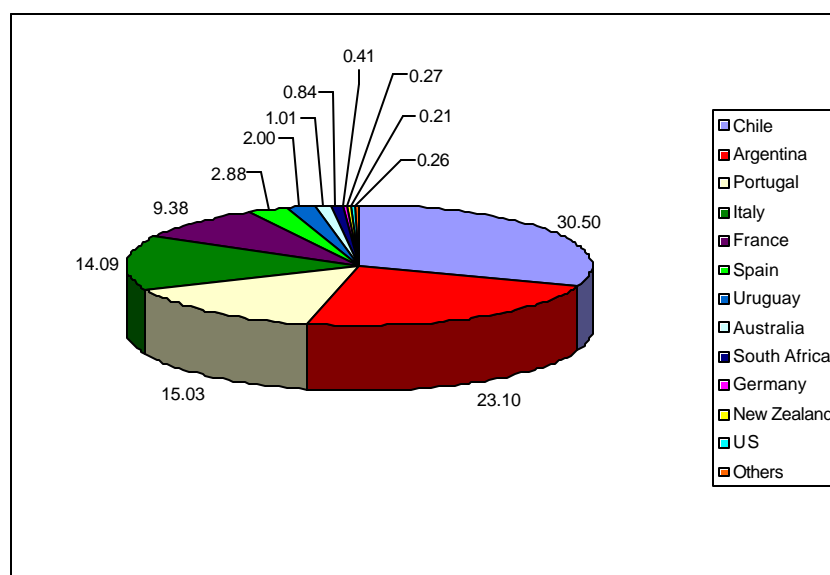
	All Wines	68,443		All Wines	88,893		All Wines	100,62	
	NS<2L	56,657	82,78	NS<2L	74,466	83,77	NS<2L	84,483	83,97
1	Chile	15,895	28,05	Chile	22,121	29,71	Chile	25,414	30,08
2	Italy	10,208	18,02	Argentina	17,142	23,02	Argentina	21,523	25,48
3	Argentina	9,654	17,04	Italy	11,853	15,92	Portugal	14,509	17,17
4	Portugal	9,557	16,87	Portugal	11,778	15,82	Italy	11,163	13,21
5	France	6,080	10,73	France	6,168	8,28	France	5,731	6,78
6	Spain	1,679	2,96	Spain	2,090	2,81	Spain	2,487	2,94
7	Uruguay	1,630	2,88	Uruguay	1,089	1,46	Uruguay	0,924	1,09
8	Germany	0,630	1,11	S. Africa	0,661	0,89	Australia	0,901	1,07
9	US	0,449	0,79	Australia	0,561	0,75	S. Africa	0,775	0,92
10	Australia	0,344	0,61	Germany	0,551	0,74	Germany	0,383	0,45
11	S. Africa	0,306	0,54	US	0,255	0,34	US	0,245	0,29
12	N. Zealand	0,153	0,27	N. Zealand	0,107	0,14	N. Zealand	0,224	0,27
	TOTAL	56,585	99,87	TOTAL	74,376	99,88	TOTAL	84,279	99,75

	2006	USD	SHARE	2007	USD	SHARE
	All Wines	139,906		All Wines	175,226	
	NS<2L	118,037	84,37	NS<2L	156,310	89,20
1	Chile	36,643	31,04	Chile	47,670	30,50
2	Argentina	25,764	21,83	Argentina	36,115	23,10
3	Portugal	18,846	15,97	Portugal	23,499	15,03
4	Italy	16,994	14,40	Italy	22,022	14,09
5	France	10,442	8,85	France	14,661	9,38
6	Spain	4,280	3,63	Spain	4,496	2,88
7	Uruguay	1,440	1,22	Uruguay	3,132	2,00
8	S. Africa	1,164	0,99	Australia	1,583	1,01
9	Australia	1,060	0,90	S. Africa	1,320	0,84
10	Germany	0,635	0,54	Germany	0,648	0,41
11	US	0,355	0,30	N. Zealand	0,417	0,27
12	N. Zealand	0,255	0,22	US	0,334	0,21
	TOTAL	117,878	99,87	TOTAL	155,897	99,74

Source: Brazilian Secretariat of Foreign Trade (SECEX)

Chile and Argentina have been the big winners since the 2003 rebound of the Real. In 2000, the market share (for non-sparkling wines) of these two countries was 18.6 percent and 10.1 percent, respectively. In 2007, Chile's share rose to 30.3 percent and Argentina's to 23 percent. Currently, both countries account for 53.6 percent of total sales, worth about US\$83,785 millions. European countries, on the other hand, have lost share. In 2000, Portugal and Italy were the top suppliers but today they are the third and fourth ranking suppliers. Imports of wine from EU come predominantly from Portugal, Italy and France. Spain and Germany are also traditional suppliers but volumes originating from these two countries are considerably lower. Together EU countries exported US\$65,326 millions to Brazil in 2007, corresponding to the share of 41.8 percent.

MARKET SHARE BY EXPORTER COUNTRY (%)



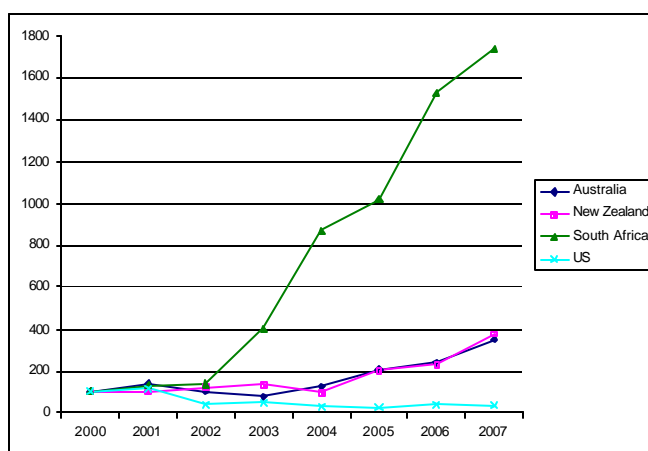
Source: Brazilian Secretariat of Foreign Trade (SECEX)

Imports from the U.S., Australia, New Zealand and South Africa are still modest. Combined, they represent less than 3 percent of sales to Brazil. Except for the U.S., all countries have increased sales since 2000. After falling in the period 2000-2002, sales picked up once again. South Africa recorded significant growth, 1,145 percent growth from 2002-2007. During this period New Zealand and Australia have also increased exports to Brazil by 211 percent and 254 percent, respectively. On the opposite end, imports of U.S. wine actually decreased between 2002 and 2007, falling 6.7 percent.

The presence of U.S. wines in Brazil has clearly suffered. U.S. disadvantages vis-a-vis Argentina and Chile are clear enough; those countries enjoy duty-free or reduced-tariff access and substantial freight advantages. Less obvious is the reason for poor performance by U.S. wines compared to other new world wine origins. Importers cite the difficulty of establishing a consistent/long-term supply relationship with U.S. exporters. Confronted with the burden of complying with Brazil's myriad administrative requirements, U.S. companies are reluctant to sell the small quantities typically purchased by Brazilian importers. At the same time, Brazilian importers are often very conservative when introducing new products in the market. Business hardly ever starts with a full container order. The clash of these two operational models has contributed to the poor U.S. performance in Brazil.

Nonetheless, the strong growth of other new world wines in the Brazilian market does demonstrate the openness and receptivity of consumers to new origins and varieties. While producers of U.S. cabernet sauvignons might find this market to be too difficult to compete in (thanks to the strong presence of lower cost yet high quality competitors from Argentina and Chile), the United States is able to offer distinctive wines and varieties to take advantage of this openness and receptivity.

INDEX PERFORMANCE OF NEW WORLD WINE EXPORTS TO BRAZIL (excluding South America)



Source: Brazilian Secretariat of Foreign Trade (SECEX)

IV. Import procedures

In Brazil the Secretariat of Agricultural Protection (SDA) of the Ministry of Agriculture, Livestock and Food Supply (MAPA) is responsible for enforcing regulations on domestic and imported plant products and by-products. Inside SDA the Department of Plant Origin Products Inspection Service (DIPOV) has the regulatory authority to enforce federal law as regarding the registration, compliance, and labeling of beverages (including distilled spirits

and wine, soft drinks, and juices). Due to volumes of imported wine into the country a specialized branch has been created to supervise wines and beverages, this office is called the General Coordination for Wines and Beverages (CGVB). meanwhile, inspections at airports and ports are overseen by another major office called General Coordination for International Sanitary Inspection of Agriculture and Livestock (CGVIG).

The import process for wines follows:

Pre-shipment

I) Registration of the winery

- Required documents:
 - >official proof of registration of the producing establishment and its wine-growing activity in the country of origin;
 - >list of wines produced, with the technical record of each product (containing brand names, variety of grapes used, alcohol percentage, total sugar contents, ingredients and additives, identification of its representative, importer declaration attesting the information presented);
- The legislation applicable for the process is the Regulation Act MAPA 64/2002, Law MAPA 7.678/1988 and Decree MAPA 99.066/1990.

II) Import approval MAPA/DIPOV

- Required documents:
 - >import approval to be provided by MAPA;
- The legislation applicable for the process is the Law MAPA 7.679/1988 and Decree MAPA 99.066/1990.

III) Ingredients analysis

- Required documents:
 - >product ingredients to be submitted to MAPA;
- The legislation applicable for the process is the Law MAPA 7.678/1988, Decree MAPA 99.066/1990 and Administrative Rule MAPA 229/1988.

IV) Label development

- Required documents:
 - >product formula and original label to be submitted to MAPA;
- The legislation applicable for the process is the Law MAPA 7.678/1988, Decree MAPA 99.066/1990, Regulation Act MAPA 64/2002 and Administrative Rule INMETRO 157/2002;

V) Copy of Pro forma sent to importer

VI) Import License (L.I.)

- Required documents:
 - > Pro forma invoice, copy of label approved by MAPA
(The process is usually conducted by a customs broker)
- The legislation applicable for the process is the Administrative Rule SECEX 35/2006

Shipment authorization by MAPA/DIPOV

VIII) Shipment

Clearance process

IX) Verification of merchandise by MAPA

- Required documents: lab certificate, packing list, commercial invoice, Authorization for Importation form
- The legislation applicable for the process is Administrative Rule Secex 35/200 and Regulation Act MAPA 36/2006

X) Registration of Import Declaration (D.I.)

- Required documents: lab certificate, packing list, commercial invoice and bill of lading
- The legislation applicable for the process is Customs Regulation and Decree 4.543/2002

XI) Clearance channels

- Green: customs clearance authorization is automatically issued.
- Yellow: mandatory inspection of documentation is required, and if no irregularities is found, customs clearance is issued.
- Red: mandatory inspection of documentation and of merchandise is required before customs clearance authorization is issued.
- Grey: mandatory inspection of documents, merchandise, and taxable basis of Import Tax is required before customs clearance authorization is issued.

XII) Depositary Term

- Required documents: lab certificate, packing list, commercial invoice and bill of lading
- The legislation applicable for the process is Regulation Act GM/MAPA 36/2006

XIII) Control analysis

- The importer has to contract a Analysis Lab approved by MAPA to conduct new analysis
- The legislation applicable is Regulation Act MAPA 33/2006

XIV) Product clearance

OB.S.: for detailed information on import process, please, refer to GAIN Report, BR7013 dated August 13th, 2007.

V. Conclusion

U.S. wines face a difficult competitive position in Brazil, but the market is experiencing steady and robust overall growth. According to local importers, consumers are always open to emerging trends- a fact that explains the sales growth of wines from the new world (excluding South America) and offers opportunities for U.S. producers.

Industry sources state that U.S. suppliers are losing share in the Brazilian market due to their unwillingness to comply with the requirements of Brazilian bureaucracy. Import procedures for Brazil, in general, are more time and cost-consuming than for other markets. Considering strict controls by MAPA at ports of entry, even minor errors in filling-out documents may interrupt the import process and create new costs. These procedures not only dissuade many U.S. suppliers from exporting to Brazil, but also make U.S. products more expensive.

To date the U.S. Foreign Agricultural Service (FAS) in Brazil has worked as a mediator on a case-by-case basis to facilitate market access. In this regard, U.S. companies should

consider early communication with FAS to minimize burdens from both parts and facilitate the entry of U.S. wines into Brazil.

VI. Post contact and further information

Please do not hesitate to contact the offices below for questions or comments regarding this report or require assistance to export processed food products into Brazil:

U.S. Agricultural Trade Office (ATO)
U.S. Consulate General
Rua Henri Dunant, 700
04709-110 Sao Paulo – SP
Tel: (55 11) 5186-7400
Fax: (55 11) 5186-7499
E-mail: atosaopaulo@usda.gov
atobrazil@usdabrazil.org.br

Office of Agricultural Affairs (OAA)
U.S. Embassy
Av. das Nacoes, quadra 801, lote 3
70403-900 Brasilia - DF
Tel: (55 61) 3312-7000
Fax: (55 61) 3312-7659
E-mail: agbrasilia@usda.gov